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SUBJECT: CAFTA SUCCESS STORIES: "NICARAGUA'S ON TOP"

REF: MANAGUA 12958

¶1. (U) Trade statistics and investor interest support the view that CAFTA-DR is having an immediate and positive effect on the Nicaraguan economy since coming into effect on April 1. Dramatic increases in exports have been logged, though one has to take the seasonal nature of agriculture into account in the case of Nicaragua. Most successes fall into two categories: agricultural products and apparel. ProNicaragua reports that investor interest is very strong. The ability of Nicaragua to quickly take advantage of CAFTA created opportunities is in large due to the effort of the Nicaraguan government and industry to improve the business climate in the country. Indeed, a recent World Bank study moved Nicaragua up five places, on top of its CAFTA neighbors with a ranking of 67, in terms of doing business. In the future, the government will need to find ways in which Nicaragua can diversify its export base to take even greater advantage of free trade. End Summary.

#### Export Performance

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¶2. (U) Trade statistics and investor interest support the view that CAFTA-DR is having an immediate and positive effect on the Nicaraguan economy since coming into effect on April 1. U.S. exports to Nicaragua in the second quarter 2006 exceeded first quarter exports by 10%. From a year-on-year perspective, U.S. exports to Nicaragua in the second quarter 2006 exceeded exports in second quarter 2005 by 14.2%. In addition, post can report that Nicaraguans are showing increasing interest in U.S. products, as reflected by an additional 20-25 commercial inquiries a month, many related to food and agricultural products.

¶3. (U) Dramatic increases have also been logged on the Nicaraguan side, though one has to take into account the seasonal nature of agricultural exports. While exports to the United States during the second quarter 2006 fell 8% from first quarter exports, this decline is traditional. The truth of the matter is that second quarter exports to the United States were 28.9% more than during same period in 2005. Exports for the first seven months of 2006 exceeded those in 2005 by 24%.

¶4. (U) Most of the increase in exports to the United States fall into two categories: agricultural products and apparel. In particular, Nicaraguan sugar producers quickly took advantage of additional U.S. tariff rate quota (TRQ) under CAFTA. Nicaragua's TRQ doubled, from 22,114 MT in

2005 to 44,114 MT in 2006. Nicaraguan producers look forward to the TRQ increasing 2% a year over the next 15 years. New on the trade horizon was watermelon, which nearly quadrupled from \$243,000 in first quarter 2006 to \$1,022,000 in second quarter 2006, after the tariff dropped from 17% to 0% under CAFTA. Similarly, the value of cigars exported to the U.S. nearly doubled from \$468,000 to \$808,000, after CAFTA eliminated the \$1.89 per kilogram tariff.

¶5. (U) NicaExport, the Nicaraguan export promotion agency, reports increasing U.S. supermarket interest in Nicaraguan agricultural products, especially ethnic and organic foods. After a recent buyers' mission to the country, Fiesta Supermarkets of Texas and Grand Mart Supermarkets of Washington, D.C. are now import Nicaraguan cheese, meat, beans, cream, ice cream, and vegetables (e.g., malanga and quisquisque) to the serve the Hispanic market in the United States. The visit benefited local companies such as Lactosam, a cheese company in Jinotega and Nuevo Carnica, a meat company in Leon, both of which are now exporting to the United States for the first time. Smaller companies and farmers' cooperatives are also benefiting. APROTRUNG, an association of farmers that grow roots and tubers in Nueva Guinea on the Atlantic coast, is exporting malanga and other products to the United States for the first time. The Asociacion Pueblo de Ayuda en Accion is exporting six types of oriental vegetables, including okra and bitter melon, to the United States.

¶6. (U) Equally important have been exports from the textile and apparel sector. While second quarter 2006 textile and apparel exports to the United States were level with first quarter exports, second quarter exports were 12% more than the same period in 2005. The important point here is that, even in the face of increased competition from China after the expiration of the Agreement on Textiles and Clothing, Nicaragua has been able to maintain its level of exports to the United States. In Nicaragua's favor is proximity to the large U.S. market and the most inexpensive labor in Central America. Nicaragua's textile and apparel industries are also benefiting from having ratified CAFTA more quickly than most of its neighbors, and for not having been tied to existing regional supply chains that were disrupted until all supplying countries had ratified CAFTA.

¶7. (U) While Nicaragua still ranks below its neighbors when it comes to textile and apparel exports, this may not be the case going forward. U.S. and other foreign investors are queuing up to take advantage of CAFTA and what Nicaragua has to offer. Cupid Foundations recently invested \$3.2 million more in their assembly plant, adding 800 jobs. Anvil Knitwear invested \$6 million in an assembly plant in Carazo, creating 1,500 jobs. ITG Coen Denim recently broke ground on a \$100 million textile plant in Managua, promising to create 750 new jobs. Taiwanese and Korean investors are also expanding investments here. While Nicaragua appears to be poised for more growth in this sector, the government will need to find ways for Nicaragua to diversify its export base so that the country can take even greater advantage of CAFTA over the medium term.

#### Investor Interest

¶8. (U) ProNicaragua, the government's investment agency, confirms that thirteen companies have invested or announced investments in Nicaragua since CAFTA-DR entered into force. These investors could bring \$240 million in additional capital to the country and create 13,350 new jobs. The agency reports that another eleven companies are looking at investing up to \$200 million in projects that could create an additional 11,600 permanent jobs. While textiles and apparel leads the list, some investors are also looking at building plants to manufacture footwear and medical products. In addition, WalMart recently purchased

a 51% stake in La Colonia, the largest high-end supermarket chain in Managua. (Note: WalMart already owns a majority stake in the mid-range La Union supermarket and low-end Pali supermarket chains.)

#### Conclusion

19. (U) Starting from a lower base, the increases in CAFTA stimulated exports may be more dramatic in the beginning for Nicaragua than some of its Central American neighbors. However, the ability of Nicaragua to better take advantage of CAFTA created trade opportunities is also due to the effort of the Nicaraguan government and industry to improve the country's business climate. Indeed, a recent World Bank study moved Nicaragua up five places, on top of its CAFTA neighbors with a ranking of 67, in terms of doing business (El Salvador ranks 71 while the others rank in the 100's). Taking some pride in the accomplishment, La Prensa trumpeted this year's ranking in an upper right front page headline: QNicaragua on Top.

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